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CANADIAN BREWERIES LIMITED / ANNUAL REPORT 1971



**Brewed from the choicest hops and malt
and pure spring water**



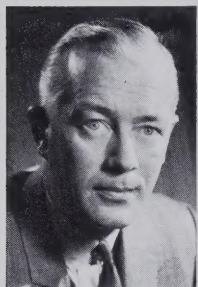
CANADIAN BREWERIES LIMITED

ANNUAL REPORT 1971

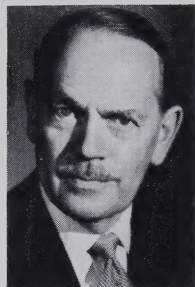
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Les actionnaires qui préféreraient recevoir leur rapport en français sont priés d'en aviser le Secrétaire des Brasseries Canadiennes Limitée.

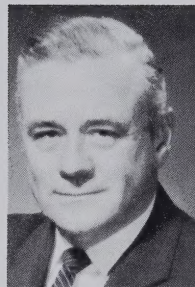
Directors



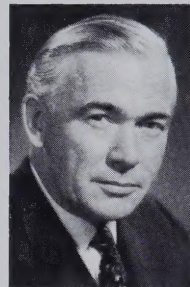
JOHN H. DEVLIN, TORONTO
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
CANADIAN BREWERIES LIMITED



SIR FRANCIS DE GUINAND,
K.B.E., C.B., D.S.O.,
LONDON, ENGLAND
FORMERLY CHAIRMAN
CARRERAS LIMITED



JOHN LADD DEAN, CLEVELAND
PARTNER—HAHN, LOESER,
FREEDHEIM, DEAN & WELLMAN



JOEL W. ALDRED, TORONTO
PRESIDENT
JOEL W. ALDRED LIMITED



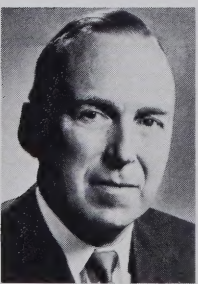
SHELDON S. WILSON,
BEVERLY HILLS, CALIFORNIA
DIRECTOR OF COMPANIES



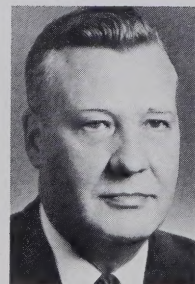
PAUL J. ERASMUS, TORONTO
PRESIDENT
CANADIAN BREWERIES LIMITED



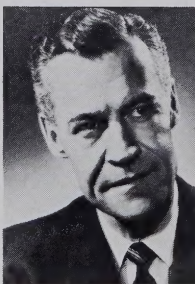
ROBERT H. HAWKES, Q.C.
VICE PRESIDENT
AND GENERAL COUNSEL
ROTHMANS OF PALL MALL
CANADA LIMITED



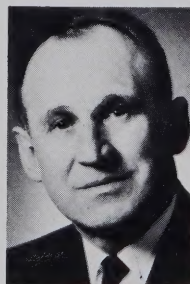
A. SEARLE LEACH, WINNIPEG
CHAIRMAN
FEDERAL GRAIN LIMITED



E. NORRIS DAVIS,
WALTHAM, MASS.
PRESIDENT
CARLING BREWING COMPANY
INCORPORATED



RENAULT ST-LAURENT, Q.C., LL.D.,
QUEBEC, P.Q.
PARTNER—ST-LAURENT, MONAST,
DESMEULES & WALTERS



JOHN E. SHAFFNER,
PORT WILLIAMS, N.S.
FORMERLY PRESIDENT
M. W. GRAVES & CO. LTD.



GEORGE C. SOLOMON, REGINA
PRESIDENT
WESTERN TRACTOR LIMITED

Officers

Chairman of the Board and Chief Executive Officer
President

Vice President Marketing

Vice President Finance

Vice President Technical Development

Vice President Personnel and Industrial Relations

Vice President Brewing

Vice President Manufacturing Services

Vice President Creative

Secretary and General Counsel

Treasurer

Subsidiary companies

President, Carling Brewing Company Incorporated, U.S.

President, Canadian Breweries Quebec Limited

President, Canadian Breweries Ontario Limited

President, Canadian Breweries Western Canada Limited

President, Canadian Breweries British Columbia Limited

General Manager, The Bennett Brewing Company, Limited

Managing Director, Beamish and Crawford Limited, Ireland

Vice President International Division

JOHN H. DEVLIN

PAUL J. ERASMUS

ROBERT G. GRIFFITHS

J. PETER ZACHARY

DANIEL DI IANNI

GEORGE A. D. STEWART

LESLIE C. JESSOP

R. ROSS SERVICE

FRIEDRICH H. LINKEN

COLIN C. HENDERSON

RALPH L. BEATTY



H. ALAN WALKER,
LONDON, ENGLAND
CHAIRMAN
BASS CHARRINGTON LIMITED



WILMAT TENNYSON, TORONTO
PRESIDENT
ROTHMANS OF PALL MALL
CANADA LIMITED

Honorary Director

J. INNES CARLING, O.B.E.

Directors' Report

Net earnings for the year ended June 30, 1971, before extraordinary items, amounted to \$9,141,000 compared to \$11,288,000 for the same period in 1970 (Per common share: 1971—32.0 cents; 1970—41.8 cents). Earnings, after providing for extraordinary items, amounted to \$5,990,000 compared to \$11,220,000 in 1970 (Per common share: 1971—17.5 cents; 1970—41.5 cents). Sales for the fiscal year under review amounted to \$396,210,000 which represented a decrease of 3.0 percent compared to 1970.

CONSOLIDATED RESULTS			
FINANCIAL YEARS ENDED	JUNE 30 1971	JUNE 30 1970	INCREASE (DECREASE)
Sales (barrels)	9,056,000	9,497,000	(4.6%)
Sales	\$396,210,000	\$408,651,000	(3.0%)
Net Earnings Before Extraordinary Items	\$9,141,000	\$11,288,000	(19.0%)
Net Earnings	\$5,990,000	\$11,220,000	(46.6%)
Per Common Share	17.5¢	41.5¢	(57.8%)

The decline in sales and earnings was due to lower sales and earnings of your Company's United States subsidiary, Carling Brewing Company Incorporated. Brewing operations in Canada showed increased sales and earnings, while operating results for Beamish and Crawford Limited in Ireland improved substantially.

In Canada your Company increased its market share for the first time in 12 years. Sales increased 7.1 percent compared to a total industry increase of 6.7 percent for the same period.

BREWING OPERATIONS—CANADA			
FINANCIAL YEARS ENDED	JUNE 30 1971	JUNE 30 1970	INCREASE (DECREASE)
Sales (barrels)	4,446,000	4,150,000	7.1%
Sales	\$219,911,000	\$202,251,000	8.7%
Net Earnings	\$6,459,000	\$6,286,000	2.8%
Earnings per Barrel	\$1.45	\$1.51	(4.0%)

The increase in sales and earnings from Canadian brewing operations was mainly attributable to the success of Heidelberg. This brand was introduced in Ontario in July 1970 and later during the fiscal year in Quebec, British Columbia and Alberta. This summer Heidelberg was introduced in Manitoba and Saskatchewan.

O'Keefe's Extra Old Stock Malt Liquor, introduced during the year under review in British Columbia, Manitoba and Newfoundland, is enjoying good consumer acceptance.

Calgary Export Ale was introduced to the Ontario market in early August 1971. This is a brand of our subsidiary Company, the Calgary Brewing and Malting Company Limited. During the last

two years, Calgary Export, with no advertising support, was the fastest growing brand in the Saskatchewan market.

Sales and earnings from Canadian brewing operations were adversely affected by a work stoppage due to a labour dispute in Montreal and Quebec City from June 10 to July 9, 1971. During the year, the following new labour contracts were negotiated: British Columbia for two years effective January 1, 1971; Quebec and Ontario for three years effective January 1, 1971; and Manitoba for three years effective June 1, 1971. In Alberta, your Company is presently in the process of negotiating a new labour contract. Present agreements expire in Saskatchewan on June 30, 1972 and in Newfoundland on March 31, 1972. It is estimated that over a three-year period, the cost of wages and fringe benefits will increase by approximately \$7,000,000.

The price adjustment on beer in Ontario during May 1971, simultaneous with taxation changes and the equalization of beer prices in Northern and Southern Ontario, resulted in an approximate 2.5 percent increase in revenue to brewers. In British Columbia, the Province's liquor control board raised beer prices, but no portion of the increase was received by the brewers. Because

of higher labour and other costs, the brewing industry will face sharply reduced earnings if no price adjustments are made to offset these rising costs.

Your Company's United States subsidiary, Carling Brewing Company Incorporated, showed a sharp decrease in sales and earnings compared to the previous twelve-month period. As mentioned in the Annual Report last year, your Company's United States sales increase in the 1970 fiscal year was due to a large extent to a strike of competitive brewers. Also contributing to the low sales and earnings is the fact that your Company is not yet effectively represented in the fast growing premium price market, which currently represents 29.5 percent of the United States market.

BREWING OPERATIONS—U.S.A.			
FINANCIAL YEARS ENDED	JUNE 30 1971	JUNE 30 1970	INCREASE (DECREASE)
Sales (barrels)	4,495,000	5,347,000	(15.9%)
Sales	\$167,167,000	\$206,400,000	(19.0%)
Net Earnings	\$626,000	\$2,790,000	(77.6%)
Earnings per Barrel	14¢	52¢	(73.1%)

As mentioned in the Quarterly Report for the period ended March 31, 1971, the Cleveland plant

was closed in May 1971. This decision was arrived at after an in-depth review of the expenditures required to match the efficiencies of the Cleveland plant with your Company's six other breweries in the United States. The Cleveland plant was constructed just after the turn of the century and was not originally designed as a brewery. The capacity in the six remaining plants amounts to approximately 6,000,000 barrels which is closer to current sales volume requirements.

The closure of the Cleveland plant resulted in a net loss after tax of \$3,932,000. This amount includes the reserve required to write down the value of the land and buildings to their estimated realizable value as well as a termination settlement with Cleveland employees. As a result of the Cleveland plant closure, it is estimated that your Company will save some \$4,000,000 in annual operating costs after allowance has been made for additional transportation costs.

The Head Office of the Carling Brewing Company Incorporated was moved from Cleveland to Waltham, Massachusetts, effective August 1, 1971. The principal factor in the decision to move the Headquarters was the need to have corporate offices near a brewery. Waltham has excellent access to the Boston Airport and is only thirteen

miles via limited access highway from your Company's modern brewery at Natick.

The costs relating to closing the Cleveland plant and moving your Company's Head Office are reflected as an extraordinary item in the earnings statement for the year ended June 30, 1971.

Black Label Malt Liquor was introduced into eleven states in June 1971 to participate in the growing malt liquor market. The product is made with 100 percent Canadian malt and will sell at a premium price. Advertising and promotional support for Heidelberg Pilsener at premium prices has not been extended beyond the original test markets.

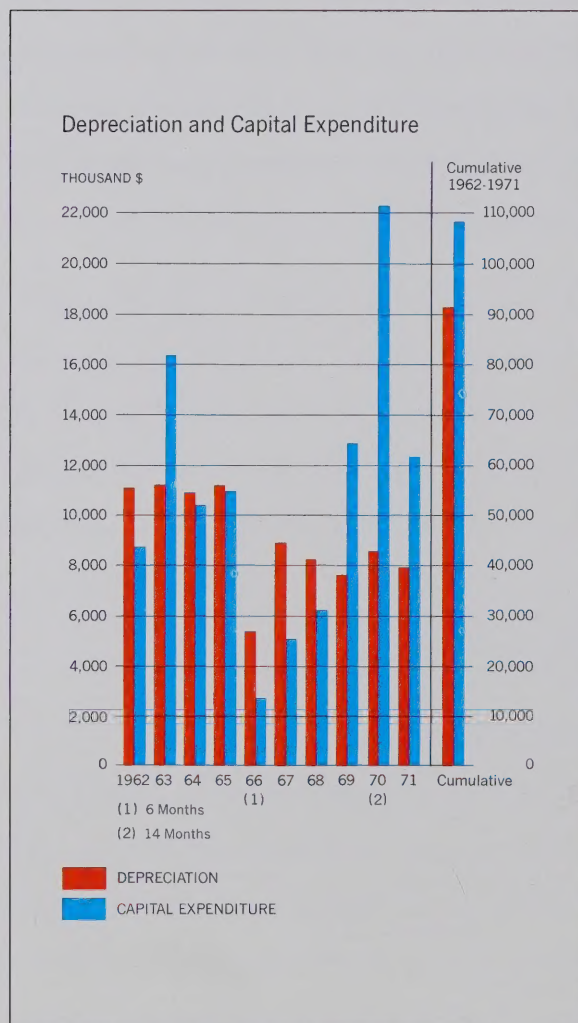
Because of its importance to your Company's overall sales position, every effort is being made to improve the sales of Black Label Lager. Your Company's other two brands in the popular price field, namely Heidelberg Lager on the West Coast and Stag in the Middle West, continue to perform well.

Capital Expenditures

Capital expenditures for the year amounted to \$12,337,000, of which \$9,225,000 was spent in Canada, \$2,885,000 in the United States and \$227,000 in Ireland. The major portion of the expenditure in Canada was utilized to complete

the expansion of the Etobicoke brewery and continuation of the modernization of the Montreal brewery.

Capitalexpenditures of approximately \$13,000,000 are planned for this year of which \$10,000,000 will be spent in Canada. The main expenditure in Canada will be continuation of the equipment modernization of the Montreal brewery as well as adding to the capacities of our breweries in



Vancouver and Saskatoon. These breweries are currently operating at full capacity due primarily to the success of Heidelberg.

International Operations

Beamish and Crawford Limited in Ireland, which has been directly managed by your Company since October 1970, showed substantial improvements in operating results during the year. The Company showed a profit of \$58,000 compared to a loss of \$425,000 for the previous year. The profits include a gain on debenture redemption of \$218,000. Sales for the same period increased by 37.6 percent, with the increase attributable mainly to the growth of Bass Ale. Carling Black Label remains a strong contender in the lager segment of the Irish market. Beamish and Crawford is presently operating on a profitable basis.

Royalty income on Carling Black Label from sales in the United Kingdom and Africa increased to \$519,000. Carling Black Label continues to achieve excellent reception in international markets and, in May 1971, a franchise agreement was completed to produce and market the brand in Malta.

Investments and Other Assets

Your Company continued during the year to

dispose of investments in shares and real estate which did not fit into your Company's long-term investment program. Surplus funds were invested mainly in short term notes receivable with the emphasis on liquidity rather than yield.

During August and September 1970, the United Kingdom investments consisting of shares in Bass Charrington Limited and Hare Place Investments Limited were sold for \$37,948,000. As a result of different exchange rates prevailing at the time of sale and acquisition of these investments, a loss of \$3,380,000 was incurred.

Notes Receivable, arising from a prior year's sale of your Company's investment in Canadian Equity & Development Limited, were disposed of in October for \$4,662,000, resulting in a gain of \$3,541,000.

Sundry properties having a book value of \$3,775,000 were sold during the year under review at a gain over book value amounting to \$2,115,000. Included in the sundry properties sold was the land on the corner of Simcoe and Dundas Streets in Toronto, formerly occupied by the Dow brewery.

The gains and losses resulting from the sale during the year of investments and sundry properties are

all reflected as extraordinary items in the Income Statement.

On June 20, 1971 your Company announced the acquisition of all the outstanding shares of Phillips Brothers Oil and Gas Ltd. of Calgary, Alberta. In addition, one-half of the assets of Kodiak Oil & Gas, Inc., a wholly owned United States subsidiary of Phillips Brothers, was acquired.

It is anticipated that the transaction will be completed on or about October 15, 1971, subject to final ratification by both parties.

The Phillips Company owns producing oil and gas interests and undeveloped lands in Western Canada, the Arctic Islands, and the Canadian off-shore East Coast. Kodiak owns interests in leases at Prudhoe Bay, Alaska, and in other Alaskan areas.

Your Company's total commitment in the foregoing acquisitions, including purchases of additional producing interests, will amount to approximately \$13,500,000. Your Board and Management believe that the Oil and Gas Industry, with the constantly increasing world demand for energy, represents a very attractive avenue for long term investment.

Mitchell & Associates Ltd. of Edmonton, Alberta, have been appointed Managers of your Company's oil and gas interests.

In August 1971, your Company purchased all the outstanding shares of Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited for \$3,800,000.

The original Doran's brewery was founded in Thunder Bay around 1876 and the Company presently operates breweries at Sudbury, Sault Ste. Marie, Timmins and Thunder Bay. The Company has maintained a major share of the beer market in Northern Ontario and has a long tradition of brewing fine quality products. Doran's main brands are Doran's Lager, Northern Ale and Edelbrau.

Doran's Beverage Company Limited is a bottler of Canada Dry, Orange Crush, Pepsi-Cola and Seven-Up with soft drink plants in Sault Ste. Marie, Timmins and Thunder Bay.

General

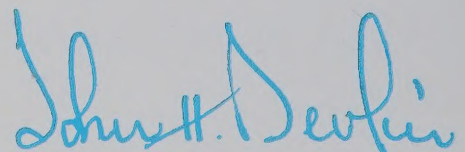
The financial position of your Company in terms of working capital position and liquid cash resources, remains very strong. At June 30, 1971, working capital amounted to \$85,498,000 representing a ratio of current assets to current liabilities of 3.2 to 1. Included in current assets are cash and short term commercial notes amounting to \$53,858,000.

Dividend payments on your Company's Preferred and Common shares remained unchanged.

Because of the strong financial position of your Company and the fact that a large portion of the lower earnings for the fiscal year under review was attributable to non-recurring extraordinary items, your Board decided to maintain the dividend on the Common shares at 40 cents per share.

Mr. E. Norris Davis, formerly Executive Vice President of your Company in Toronto, was appointed a Director of Canadian Breweries Limited and President of Carling Brewing Company Incorporated (U.S.A.) effective July 1, 1971. Mr. Davis succeeded Mr. H. E. Russell who resigned. Your Board wishes to thank Mr. Russell for his 17 years of dedicated service to the Carling Brewing Company.

On behalf of the Directors, I extend sincere thanks to our 5,940 employees in Canada, the United States, Ireland, the United Kingdom and Europe for their loyalty and conscientious efforts; and to our shareholders and our many associates in business for their valued support.



*Chairman of the Board and
Chief Executive Officer*

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(in thousands of dollars)

	Year Ended June 30	
	1971	1970
Sales - - - - -	\$396,210	\$408,651
Excise and sales taxes - - - - -	145,214	148,218
	<u>250,996</u>	<u>260,433</u>
Costs		
Raw materials and manufacturing expenses - - - - -	157,053	161,742
Marketing and distribution expenses - - - - -	64,602	66,009
Administrative and general expenses - - - - -	14,401	13,849
	<u>236,056</u>	<u>241,600</u>
Income from brewing operations - - - - -	<u>14,940</u>	<u>18,833</u>
Other income and expenses		
Investment and other income - - - - -	5,513	6,411
Royalty income - - - - -	596	579
Sundry properties expenses—net - - - - -	(334)	(760)
Provision for Beamish and Crawford Limited loss (Note 1) - - - - -	—	(425)
	<u>5,775</u>	<u>5,805</u>
	<u>20,715</u>	<u>24,638</u>
Interest		
Long term debt - - - - -	2,425	2,567
Other - - - - -	262	—
	<u>2,687</u>	<u>2,567</u>
	<u>18,028</u>	<u>22,071</u>
Income taxes		
Current - - - - -	7,623	9,450
Deferred - - - - -	1,264	1,333
	<u>8,887</u>	<u>10,783</u>
Earnings before extraordinary items - - - - -	<u>9,141</u>	<u>11,288</u>
Extraordinary items (Note 9) - - - - -	3,151	68
EARNINGS FOR THE YEAR - - - - -	<u>\$ 5,990</u>	<u>\$ 11,220</u>
Earnings per common share		
Before extraordinary items - - - - -	32.0¢	41.8¢
For the year - - - - -	<u>17.5¢</u>	<u>41.5¢</u>

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year Ended June 30	
	1971	1970
Balance at beginning of year - - - - -	\$ 49,278	\$ 72,064
Earnings for the year - - - - -	5,990	11,220
Excess of original cost of Beamish and Crawford Limited over net worth when purchased (Note 1) - - - - -	—	(1,400)
Excess of par value over cost of preference shares purchased for cancellation	37	57
	<u>55,305</u>	<u>81,941</u>
Dividends paid		
Preference—		
\$2.20 per Series A share and		
\$2.65 per Series B share in 1971 and 1970 - - - - -	2,185	2,196
Common—		
Regular—40¢ per share in 1971 and 1970 - - - - -	8,705	8,705
Special—\$1.00 per share in 1970 - - - - -	—	21,762
	<u>10,890</u>	<u>32,663</u>
Balance at end of year - - - - -	<u>\$ 44,415</u>	<u>\$ 49,278</u>

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Working Capital

(in thousands of dollars)

	Year Ended June 30	
	1971	1970
Working capital was increased by:		
Earnings for the year - - - - -	\$ 5,990	\$ 11,220
Depreciation - - - - -	7,924	7,350
Deferred income taxes - - - - -	424	984
Other non cash items principally from extraordinary items - - - - -	4,578	473
Working capital from operations - - - - -	18,916	20,027
Proceeds from liquidation of United Kingdom investments (Note 4) - -	37,948	—
Disposal of property, plant and equipment and sundry properties - - -	5,706	3,033
Reduction in investment in associated companies - - - - -	636	460
Working capital of Beamish and Crawford Limited (Note 1) - - - -	705	—
Reduction in mortgages and other assets - - - - -	2,000	638
	<u>65,911</u>	<u>24,158</u>
Working capital was decreased by:		
Additions to property, plant and equipment - - - - -	12,337	19,703
Dividends on preference shares - - - - -	2,185	2,196
Dividends on common shares		
Regular - - - - -	8,705	8,705
Special - - - - -	—	21,762
Retirement of long term debt - - - - -	2,797	458
Redemption of preference shares - - - - -	99	142
	<u>26,123</u>	<u>52,966</u>
Increase (decrease) in working capital - - - - -	39,788	(28,808)
Working capital at beginning of year - - - - -	45,710	74,518
Working capital at end of year - - - - -	<u>\$ 85,498</u>	<u>\$ 45,710</u>

CANADIAN BREWERIES LIMITED
(Incorporated under the laws of the Province of Ontario)

Consolidated
(in thousands of dollars)

ASSETS	June 30	
	1971	1970
Current Assets		
Cash - - - - -	\$ 10,415	\$ 9,606
Short term commercial notes, at cost - - - - -	43,443	10,116
Accounts receivable - - - - -	25,687	27,152
Recoverable income taxes - - - - -	3,080	—
Inventories (Note 2) - - - - -	39,098	33,721
Prepaid expenses - - - - -	3,469	3,883
Total Current Assets - - - - -	<u>125,192</u>	<u>84,478</u>
Property, Plant and Equipment (Note 3) - - - - -	<u>106,389</u>	<u>108,172</u>
Investments and Other Assets		
Subsidiary company, at equity (Note 1) - - - - -	—	4,792
United Kingdom investments, at cost (Note 4) - - - - -	—	41,328
Mortgages and other assets (Note 5) - - - - -	15,649	14,365
Associated companies, at lower of cost and estimated realizable value - - -	8,408	9,399
Sundry properties (Note 6) - - - - -	9,962	10,226
Total Investments and Other Assets - - - - -	<u>34,019</u>	<u>80,110</u>
Approved on Behalf of the Board J. H. DEVLIN, <i>Director</i>		
P. J. ERASMUS, <i>Director</i>		
	<u>\$265,600</u>	<u>\$272,760</u>

Balance Sheet

(dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30	
	1971	1970
Current Liabilities		
Bank loans - - - - -	\$ 1,186	\$ —
Accounts payable and accrued liabilities - - - - -	21,773	23,991
Income taxes - - - - -	4,415	2,031
Other taxes - - - - -	9,598	10,022
Dividends payable - - - - -	2,722	2,724
Total Current Liabilities - - - - -	39,694	38,768
Long Term Debt (Note 7) - - - - -	45,069	48,580
Total Liabilities - - - - -	84,763	87,348
Deferred Income Taxes - - - - -	13,232	12,808
Shareholders' Equity		
Capital Stock (Note 8)		
Authorized—		
896,665 preference shares with a par value of \$50 each, issuable in series		
30,001,260 common shares without par value		
Issued—		
433,745 \$2.20 cumulative redeemable preference shares, Series A - - -	21,687	21,687
462,920 \$2.65 cumulative redeemable preference shares, Series B - - -	23,146	23,282
21,762,295 common shares - - - - -	78,357	78,357
Retained earnings - - - - -	44,415	49,278
Total Shareholders' Equity - - - - -	167,605	172,604
	\$265,600	\$272,760

Notes to Consolidated Financial Statements

JUNE 30, 1971 AND 1970

1. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary companies, all of which are substantially wholly-owned. The financial statements of Beamish and Crawford Limited, a subsidiary operating in Ireland, which were included on the equity basis in 1970, are included on the full consolidation basis in 1971, following cancellation of an agreement with Bass Charrington Limited under which the latter had managed Beamish and Crawford Limited since 1967. The excess of the cost of the investment in Beamish and Crawford Limited over its net worth when purchased, amounting to \$1,400,000, was charged against retained earnings at June 30, 1970.

The accounts of foreign subsidiary companies have been translated to Canadian dollars on the following basis: current assets and current liabilities at exchange rates in effect at June 30; property, plant and equipment and investments and other assets at historical rates; income and costs at average rates for the year except for depreciation provisions which are on the same basis as the related property, plant and equipment.

Certain June 30, 1970 items have been reclassified to conform with the Company's current financial statement presentation.

2. Inventories:

	June 30	
	1971	1970
Beer and ale—finished and in process - - - - -	\$20,650,000	\$18,493,000
Materials and supplies - - - - -	9,836,000	9,419,000
Containers - - - - -	8,612,000	5,809,000
	<u>\$39,098,000</u>	<u>\$33,721,000</u>

Inventories are stated at the lower of cost and net realizable value except for containers which are recorded at estimated values which are lower than new replacement costs.

3. Property, plant and equipment, at cost less accumulated depreciation:

	June 30			
	1971		1970	
	Assets	Accumulated Depreciation	Assets	Accumulated Depreciation
Land - - - - -	\$ 6,270,000	\$ —	\$ 5,935,000	\$ —
Buildings - - - - -	73,157,000	23,806,000	79,046,000	24,902,000
Machinery - - - - -	121,901,000	73,843,000	125,173,000	79,146,000
Motor vehicles- - - - -	7,338,000	4,875,000	6,491,000	4,641,000
Leasehold improvements - - - - -	361,000	114,000	297,000	81,000
	<u>\$209,027,000</u>	<u>\$102,638,000</u>	<u>\$216,942,000</u>	<u>\$108,770,000</u>

Depreciation is provided generally on the straight-line basis over the estimated useful lives of the assets. In prior years certain motor vehicles were depreciated using the diminishing balance method. In the current year the straight-line basis was adopted and this change had no material effect on earnings for the year.

During 1971 property, plant and equipment having a total depreciated value of \$9,024,000 was transferred at its estimated realizable value to sundry properties, 1970—\$5,696,000.

Capital expenditures for the year ending June 30, 1972 are expected to aggregate \$13,000,000.

4. United Kingdom investments:

	Cost		Proceeds		(Loss) Gain (Note 9)	
Shares in Bass Charrington Limited	£ 6,838,000	\$19,874,000	£ 9,445,000	\$22,914,000	£ 2,607,000	\$ 3,040,000
Hare Place Investments Limited -	7,100,000	21,454,000	6,197,000	15,034,000	(903,000)	(6,420,000)
Total - - - - -	<u>£13,938,000</u>	<u>\$41,328,000</u>	<u>£15,642,000</u>	<u>\$37,948,000</u>	<u>£ 1,704,000</u>	<u>\$(3,380,000)</u>

During the year the shares in Bass Charrington Limited were sold, Hare Place Investments Limited was liquidated and the Company received its share of the latter's assets which consisted of minority interests in United Kingdom breweries and cash advances to Bass Charrington Limited; these assets were subsequently sold. The dollar loss results from the decline in the value of United Kingdom currency over the period during which the Company acquired and held these investments.

5. Mortgages and other assets:

	June 30	
	1971	1970
Mortgages receivable - - - - -	\$10,764,000	\$ 8,361,000
Long term receivables - - - - -	2,005,000	3,258,000
Deferred charges, at amortized cost - - - - -	1,690,000	1,564,000
Other assets, at cost - - - - -	1,190,000	1,182,000
	<u>\$15,649,000</u>	<u>\$14,365,000</u>

Certain mortgages and long term receivables which the Company proposes to sell are recorded at their estimated realizable value.

6. Sundry properties:

These properties comprise former breweries, related land and other real estate which the Company intends to sell or redevelop. They are recorded at the lower of cost and estimated realizable value.

7. Long term debt:

	June 30	
	1971	1970
Sinking fund debentures payable in either Canadian or U.S. funds, at par, at the option of the holder:		
Series A 4 ³ / ₄ % due January 15, 1979 - - - - -	\$ 4,119,000	\$ 4,671,000
Series B 4 ¹ / ₄ % due January 15, 1981 - - - - -	6,913,000	7,082,000
Sinking fund debentures payable in Canadian funds:		
Series C 5% due January 15, 1983 - - - - -	6,487,000	6,853,000
Series D 5 ¹ / ₂ % due April 1, 1986 - - - - -	11,197,000	11,983,000
Series E 5 ¹ / ₂ % due April 1, 1989 - - - - -	16,353,000	17,991,000
	<u>\$45,069,000</u>	<u>\$48,580,000</u>

The remaining sinking fund payments required in the next five years are:

1972—Nil; 1973—\$2,670,000; 1974—\$3,800,000; 1975—\$3,800,000; 1976—\$3,800,000.

8. Capital stock:

The Series A and B Preference Shares are redeemable at \$53.00 and \$52.50 per share respectively. During the year ended June 30, 1971, 2,730 Series B shares were purchased for cancellation, 1970—3,970 shares.

Under the Company's Stock Option Plan for executives of the Company and its subsidiaries, there were outstanding options on 78,000 common shares at June 30, 1971, 1970—98,000 shares, exercisable up to November 11, 1973 at \$9.74 per share in Canada and \$9.15 U.S. per share in the United States. An additional 422,000 common shares are reserved for use under this Plan.

9. Extraordinary items:

	Year Ended June 30	
	1971	1970
Loss on sale of United Kingdom investments (Note 4) - - - - -	<u>\$ (3,380,000)</u>	\$ —
Profit realized during the year on disposal of notes received from 1968 sale of shares in Canadian Equity & Development Company Limited - - - - -	3,541,000	674,000
Non-recurring costs arising from closing breweries during the year \$8,633,000, 1970—\$2,060,000, less applicable income taxes of \$4,701,000, 1970—\$1,102,000 - - -	<u>(3,932,000)</u>	(958,000)
The 1971 charge includes the following costs arising from closing the Cleveland brewery in May 1971, and the resulting transfer of the United States head office facilities to Boston:		
Writedown of facilities to estimated realizable value - - - - -	\$ 6,066,000	
Severance pay and other non-recurring costs - - - - -	1,137,000	
Head office relocation expenses - - - - -	1,430,000	
	<u>\$ 8,633,000</u>	
Profit on sale of sundry properties - - - - -	2,115,000	108,000
Writedown of a minority investment in Kiewit-Pelissier Brewery Limited and certain long term receivables, which the Company intends to sell, to their estimated realizable values - - - - -	(895,000)	—
Foreign exchange losses - - - - -	(600,000)	(421,000)
Deferred income tax adjustments related to the depreciated value for tax purposes of demolished former breweries - - - - -	—	529,000
	<u>\$ (3,151,000)</u>	<u>\$ (68,000)</u>

10. Remuneration of Directors and Senior Officers:

Total remuneration of Directors and Senior Officers for the year was \$810,000, 1970—\$825,000.

11. Pensions:

The Company and its subsidiaries maintain a number of pension plans for substantially all of their employees. Under one plan, prior service costs of approximately \$2,208,000 are being amortized over thirty years.

In addition to the above plans, the companies are paying supplementary pensions to a number of former employees. During the year certain supplementary pension arrangements were incorporated in the companies' regular pension plans. The aggregate supplemental payments for all future years are estimated at \$1,700,000, 1970—\$3,100,000.

The charges against earnings for both regular and supplemental pensions were \$3,232,000 in the year ended June 30, 1971, 1970—\$3,009,000.

12. Subsequent events:

The Company has agreed, subject to completion of certain conditions by the vendor, to acquire all of the outstanding shares of Phillips Brothers Oil and Gas Ltd., and one half of the assets of its wholly owned United States subsidiary Kodiak Oil and Gas, Inc., for an aggregate cash price of approximately \$13,500,000. It is anticipated that the acquisition will be completed in October 1971.

The Company has agreed in principle to acquire all of the outstanding shares of Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited for \$3,800,000 cash. The transaction is expected to be completed during September 1971.

Price Waterhouse & Co.

chartered accountants

P.O. Box 51 Toronto-Dominion Centre Toronto 111 Ont.

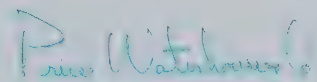
August 11, 1971.

Auditors' Report

TO THE SHAREHOLDERS OF CANADIAN BREWERIES LIMITED:

We have examined the consolidated statements of earnings, retained earnings and changes in working capital of Canadian Breweries Limited and its subsidiary companies for the year ended June 30, 1971 and the consolidated balance sheet as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the results of operations and the changes in working capital of the companies for the year ended June 30, 1971 and their financial position as at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


Chartered Accountants

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

FIVE-YEAR FINANCIAL SUMMARY

(thousands of dollars)	12 Months Ended June 30		12 Months Ended April 30		
	1971	1970	1969	1968	1967
<i>Operating:</i>	\$	\$	\$	\$	\$
Sales - - - - -	396,210	408,651	400,610	389,594	397,797
Excise and sales taxes - - - - -	145,214	148,218	146,646	141,466	142,269
Sales excluding taxes - - - - -	250,996	260,433	253,964	248,128	255,528
Operating costs - - - - -	228,132	234,250	224,427	214,533	223,187
Other income—net - - - - -	5,775	5,805	7,386	6,175	4,065
Interest expense - - - - -	2,687	2,567	2,810	3,230	3,759
Depreciation and amortization - - - - -	7,924	7,350	7,726	8,310	10,795
Earnings before income taxes - - - - -	18,028	22,071	26,387	28,230	21,852
Income taxes - - - - -	8,887	10,783	11,948	12,868	9,976
Extraordinary items less applicable income taxes - - - - -	(3,151)	(68)	875	(193)	130
Net earnings - - - - -	5,990	11,220	15,314	15,169	12,006
—as a percent of sales - - - - -	1.5	2.7	3.8	3.9	3.0
—as a percent of sales excluding taxes - - - - -	2.4	4.3	6.0	6.1	4.7
Dividends paid—preference - - - - -	2,185	2,196	2,257	2,331	2,372
—common regular - - - - -	8,705	8,705	8,705	8,705	8,705
—common special - - - - -	—	21,762	—	—	—
Net earnings per common share - - - - -	17¢	41¢	60¢	59¢	44¢
Dividends per common share - - - - -	40¢	\$1.40	40¢	40¢	40¢
<i>Financial:</i>					
Working Capital					
Cash and short term commercial notes - - - - -	53,858	19,722	49,572	36,386	30,081
Other current assets - - - - -	71,334	64,756	57,740	63,904	68,834
	125,192	84,478	107,312	100,290	98,915
Current liabilities - - - - -	39,694	38,768	31,819	34,130	32,108
	85,498	45,710	75,493	66,160	66,807
Ratio - - - - -	3.2	2.2	3.4	2.9	3.1
Total Assets					
Current assets - - - - -	125,192	84,478	107,312	100,290	98,915
Fixed assets—net - - - - -	106,389	108,172	99,923	111,116	114,324
Investments and other assets - - - - -	34,019	80,110	81,025	80,407	83,744
Total assets - - - - -	265,600	272,760	288,260	291,813	296,983
Less: Current liabilities - - - - -	39,694	38,768	31,819	34,130	32,108
Long term debt - - - - -	45,069	48,580	49,300	54,752	65,700
Deferred income taxes - - - - -	13,232	12,808	11,760	10,651	9,990
Capital employed (shareholders' equity) - - - - -	167,605	172,604	195,381	192,280	189,185
% return on capital employed - - - - -	3.6	6.5	7.8	7.9	6.3
Preference share capital - - - - -	44,833	44,969	45,296	47,015	48,373
Book value per common share - - - - -	\$5.64	\$5.86	\$6.90	\$6.68	\$6.47

FINANCIAL REVIEW

Year Ended June 30

Sales Analysis

(thousands of dollars)

	1971	1970	1971	1970	1971	1970
	Total		Canada*		United States	
Sales - - - - -	\$396,210	\$408,651	\$229,043	\$202,251	\$167,167	\$206,400
Sales excluding excise and sales taxes	\$250,996	\$260,433	\$135,215	\$119,310	\$115,781	\$141,123
Earnings—Brewing Operations as a percentage of:						
Sales - - - - -	1.7	2.1	2.8	2.9	0.4	1.4
Sales excluding excise and sales taxes	2.8	3.3	4.7	4.9	0.5	2.0

*Includes Brewing Operations—Ireland

Earnings Analysis

(thousands of dollars) (per share)

	Earnings		Capital Employed		% Return	
Brewing Operations—Canada - -	\$ 6,459	\$ 6,286	\$ 72,944	\$ 69,138	8.85	9.09
	29.7¢	28.9¢				
Brewing Operations—U.S.A. - -	626	2,790	45,230	52,214	1.38	5.34
	2.8¢	12.9¢				
Brewing Operations—Ireland - -	(160)	(425)	6,623	4,792	(2.42)	(8.87)
	(0.7¢)	(2.0¢)				
Total Brewing Operations - - -	6,925	8,651	124,797	126,144	5.55	6.86
	31.8¢	39.8¢				
International Operations—Other -	134	270				
	0.6¢	1.2¢				
Investment and Other Income - -	3,209	3,563	87,877	95,040	3.65	3.75
	14.7¢	16.4¢				
Long term debt interest - - - -	(1,127)	(1,196)	(45,069)	(48,580)	(2.50)	(2.46)
	(5.1¢)	(5.5¢)				
Net earnings before extraordinary items - - - - -	9,141	11,288				
	42.0¢	51.9¢				
Extraordinary items - - - - -	(3,151)	(68)				
	(14.5¢)	(0.3¢)				
Net Earnings - - - - -	5,990	11,220	\$167,605	\$172,604	3.57	6.50
Preferred dividends - - - - -	2,185	2,196				
Available to common shareholders -	\$ 3,805	\$ 9,024				
	17.5¢	41.5¢				

Analysis of Investments and Other Assets

(in thousands of dollars)

	Book Value at June 30		After Tax Yield 12 Months to June 30	
	1971	1970	1971	1970
Cash and short term commercial notes - - - - -	\$53,858	\$19,722	\$ 1,584	\$ 837
United Kingdom investments				
Bass Charrington Limited - - - - -	—	19,874	—	1,369
Hare Place Investments Limited - - - - -	—	21,454	265	657
	<u>—</u>	<u>41,328</u>	<u>265</u>	<u>2,026</u>
Mortgages and other assets				
Mortgages - - - - -	10,764	8,361	235	297
Long term receivables - - - - -	2,005	3,258	6	21
Deferred charges - - - - -	1,690	1,564	—	—
Other assets - - - - -	1,190	1,182	9	9
	<u>15,649</u>	<u>14,365</u>	<u>250</u>	<u>327</u>
Associated companies				
Brewers Warehousing Co. Ltd. - - - - -	7,278	7,104	312	451
Other - - - - -	1,130	2,295	13	103
	<u>8,408</u>	<u>9,399</u>	<u>325</u>	<u>554</u>
Sundry properties				
Former breweries - - - - -	6,722	6,715	(149)	(275)
Warehouses - - - - -	256	396	(12)	(13)
Other real estate - - - - -	2,984	3,115	14	(37)
	<u>9,962</u>	<u>10,226</u>	<u>(147)</u>	<u>(325)</u>
Total investments and other assets - - - - -	87,877	95,040	2,277	3,419
Profit on redemption of debentures - - - - -	—	—	932	144
Total - - - - -	<u>\$87,877</u>	<u>\$95,040</u>	<u>\$ 3,209</u>	<u>\$ 3,563</u>

NOTE:

The United Kingdom investments were liquidated during the year and the funds obtained were invested in short term commercial notes.

Short term interest rates, which reached a ten-year high during 1970, declined materially during the 1971 fiscal year.

Beer Industry—Major Operating Markets

Canada

The Canadian beer market enjoyed excellent growth during the fiscal year under review with almost all Provinces recording better than average sales gains. Total industry sales increased by 6.7 percent compared to an average rate of growth over the past five years of 4.2 percent.

Quebec, Ontario and British Columbia account for 78 percent of the Canadian beer market. In Quebec, ale represents 96.5 percent of the total market. In Ontario, the market split is 63.2 percent ale and 36.3 percent lager, with Eastern Ontario being predominantly an ale market and Western Ontario a lager market. In the Prairie Provinces and British Columbia, lager represents 97.1 percent of the market while ale remains at

2.4 percent. On a national basis, 57 percent of sales were ale, 42 percent lager and less than 1 percent stout and porter. The trend away from draught continues and in 1970 packaged sales represented 81.7 percent of the total market compared to 80.5 percent in 1969. The swing to packaged beer is most evident in Western Canada.

Bottled beer in Canada is sold only in returnable containers. Canned sales are small, representing less than 2 percent of the total packaged beer market.

With the exception of the Provinces of Prince Edward Island, New Brunswick and Newfoundland, where the legal drinking age is 21, all Provinces in Canada have lowered the legal drinking age to either 18 or 19. This change has increased the number of consumers in Canada by an estimated 10 percent.

CANADIAN BEER INDUSTRY

		Sales Volume (in thousands of barrels)		Sales Increase (%)		Per Capita Consumption	
		12 Months to June 30		1971 over		Calendar Years	
		1971	1970	1970	Five Year Average	1970	1969
British Columbia	- - - -	1,457	1,358	7.3	6.2	16.6	15.7
Alberta	- - - -	1,003	958	4.7	5.0	14.8	15.5
Saskatchewan	- - - -	499	477	4.6	.6	12.8	12.4
Manitoba	- - - -	619	595	4.0	2.8	15.5	14.9
Ontario	- - - -	5,367	4,996	7.4	4.1	16.9	16.5
Quebec	- - - -	4,203	3,973	5.8	3.9	16.9	16.3
Newfoundland	- - - -	222	193	15.1	9.4	9.9	9.1
Nova Scotia	- - - -	388	353	9.9	5.0	12.3	11.7
New Brunswick	- - - -	271	242	12.0	4.0	10.2	9.7
Prince Edward Island	- - -	46	41	12.2	7.8	9.9	9.4
Yukon	- - - -	18	17	5.9	8.8	28.4	27.4
Northwest Territories	- - -	21	18	16.7	10.0	14.9	12.5
Total Canada	- - - -	14,114	13,221	6.7	4.2	15.9	15.4

1 barrel = 25 Imperial gallons

Per capita consumption is stated in gallons

United States

The United States beer market has grown at a slightly better than average rate during the past year. During the 1970 calendar year, sales increased by 4.8 percent compared to an average growth rate of 4.3 percent over the past five years.

In the United States beer market, the lager segment predominates with 97 percent of the total market. Ale represents 0.5 percent while malt liquor, a growing segment of the market, accounts for the remaining 2.5 percent.

The trend to non-returnable packaging away from returnable bottles continues although at a slower rate than in previous years. The trend towards premium-priced lagers continued in 1970 and currently this segment of the market represents approximately 29.5 percent of total packaged beer sales.

The following table summarizes the main statistics on beer consumption in Canada and the United States:

<u>Year Ended December 31, 1970</u>	<u>Canada</u>	<u>U.S.</u>
Annual Consumption 1970 (000 barrels) - - - - -	13,580	121,859
Annual Consumption 1969 (000 barrels) - - - - -	12,992	116,271
Percentage Increase 1970 over 1969 - - - - -	4.5%	4.8%
Annual Consumption 1965 (000 barrels) - - - - -	11,150	100,300
Average Growth Rate in Past Five Years - - - - -	4.4%	4.3%
Per Capita Consumption 1970		
Imperial Gallon - - - - -	15.9	15.3
U.S. Gallon - - - - -	19.1	18.4

Per capita beer consumption in North America is low compared to most industrialized countries. The table below compares the per capita consumption in Canada and the United States with the eight highest per capita consumption countries in 1969 (latest complete figures available).

	<u>Imperial Gallons Per Year</u>
West Germany - - - - -	29.9
Czechoslovakia - - - - -	29.7
Belgium - - - - -	27.9
Australia - - - - -	25.6
New Zealand - - - - -	24.5
Denmark - - - - -	22.2
Austria - - - - -	21.8
United Kingdom - - - - -	21.6
CANADA - - - - -	15.4
UNITED STATES - - - - -	14.8

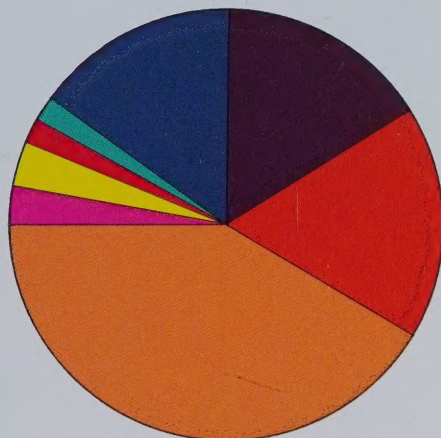
Ireland

In 1970, the Irish market increased by 7 percent to 1,640,000 Irish barrels, which is equivalent to 2,361,000 Canadian barrels.

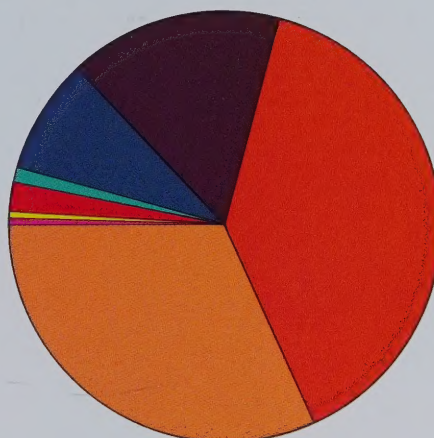
While Ireland is still predominantly a stout market, there is a strong trend towards ale and lager. Currently the market breakdown is 71 percent stout, 21 percent ale and 8 percent lager.

Draught beer represents 75 percent of the total market while the remainder is sold in returnable bottles. Non-returnable containers are a negligible segment of the total Irish market.

Canada



United States



Allocation of Sales Dollar

Canada

U.S.A.

Allocation of Sales Dollar		Canada	U.S.A.
SALES		100.00	100.00
TAXES		41.59	31.82
MATERIALS AND MANUFACTURING EXPENSES		17.43	39.58
SALARIES, WAGES AND FRINGE BENEFITS		15.91	15.78
MARKETING, DISTRIBUTION AND TRANSPORTATION		15.25	8.86
ADMINISTRATIVE AND GENERAL		1.72	1.06
DEPRECIATION		1.82	2.17
INCOME TAXES		3.34	.36
EARNINGS FROM BREWING OPERATIONS		2.94	.37

Materials and Manufacturing Expenses

Packaging expenses in the United States are higher due mainly to the large proportion of sales in non-returnable containers.

Marketing, Distribution and Transportation

Distribution and transportation expenses in Canada are higher because in most markets a large Company-owned fleet of trucks delivers the product directly to retail outlets. In the United States, the distribution of beer is handled mainly by independent distributors.

*Principal operating
subsidiary companies:*

CANADA

THE BENNETT BREWING COMPANY, LIMITED
CALGARY BREWING AND MALTING COMPANY LIMITED
THE CARLING BREWERIES LIMITED
O'KEEFE BREWING COMPANY LIMITED
WILLIAM DOW BREWERY LIMITED

UNITED STATES

CARLING BREWING COMPANY INCORPORATED
CENTURY IMPORTERS INCORPORATED

IRELAND

BEAMISH AND CRAWFORD LIMITED

Executive Offices:

79 ST. CLAIR AVENUE EAST, TORONTO 7, CANADA

Auditors:

PRICE WATERHOUSE & CO.

Bankers:

THE ROYAL BANK OF CANADA
CANADIAN IMPERIAL BANK OF COMMERCE
BANK OF MONTREAL
CENTRAL NATIONAL BANK OF CLEVELAND

Registrars:

IN CANADA
MONTREAL TRUST COMPANY

IN THE UNITED STATES
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Transfer Agents:

IN CANADA
NATIONAL TRUST COMPANY, LIMITED;
Ontario, Quebec, Manitoba, Alberta and British Columbia
CANADA PERMANENT TRUST COMPANY;
New Brunswick and Nova Scotia
THE CANADA TRUST COMPANY;
Saskatchewan

IN THE UNITED STATES
THE CHASE MANHATTAN BANK

CANADIAN BREWERIES LIMITED PRODUCTION FACILITIES IN NORTH AMERICA



Your company and its United States subsidiary, Carling Brewing Company Inc., operates 12 breweries in Canada having an annual capacity of 5,400,000 barrels and 6 breweries in the United States with an annual capacity of 5,800,000 barrels.

